

**Review of Actions to Deny or Cancel Applications for Benefits  
Under the Railroad Retirement Act, Report No. 06-07, July 18, 2006**

**INTRODUCTION**

This report presents the results of the Office of Inspector General's (OIG) review of Railroad Retirement Board (RRB) actions to deny or cancel applications for benefits under the Railroad Retirement Act (RRA).

**Background**

The RRB administers the retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act (RRA) and the Railroad Unemployment Insurance Act (RUIA). These programs provide income protection during old age and in the event of disability, death, temporary unemployment or sickness. During fiscal year 2005, the RRB paid approximately \$9.2 billion in RRA benefit payments to 634,000 retirement and survivor beneficiaries.

The RRA provides for the payment of monthly annuities to retired railroad workers, their spouses and survivors. The agency pays annuities on the basis of years of service and age or disability.

The Office of Programs is responsible for the adjudication of benefits including decisions on entitlement and computation of payment amounts. Benefit payment operations are supported by both mainframe and local area network based computer operations from the time of application through payment including the maintenance of comprehensive historical records.

Under the RRA, benefits can only be paid to entitled individuals who file an application for benefits. Applicants are required to demonstrate that they have met the minimum requirements for the type of annuity for which they have applied. These requirements typically pertain to the qualifying earnings record of the railroad worker and the applicant's age or disability status. Applications are sometimes filed by individuals who do not meet the eligibility requirements established by the RRA. Such claims are denied by the agency and the applicant is notified of the reason(s) for its decision. Applicants who disagree with the agency's decision to deny benefits may request that the decision be reversed through the appeals process.

Sometimes an individual may file an application and later withdraw their claim for benefits. In these cases, the applicant is required to notify the agency in writing that they do not wish to pursue their claim for benefits<sup>1</sup>. When a person cancels an application, the effect is the same as though an application was never filed.

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<sup>1</sup> 20 CFR §217.26

This review was undertaken to support the OIG's annual audit of the RRB's financial statements, which is required by the Accountability of Tax Dollars Act of 2002. In compliance with the Office of Management and Budget's Bulletin 01-02, Audit Requirements for Federal Financial Statements, the OIG assesses compliance with selected provisions of the RRA as part of its annual audit of the RRB's financial statements.

### **Objective, Scope, and Methodology**

The objective of this audit was to determine whether applications that were cancelled by the applicant or denied by the agency during the first quarter of FY 2005 were processed in accordance with law, regulation and applicable procedure. To accomplish our objective, we:

- interviewed responsible management and staff;
- identified the provisions of the RRA applicable to the denial and cancellation of applications; and
- assessed the agency's overall compliance with applicable law, regulation, and agency procedure using statistical acceptance sampling.

The details of our sampling methodology are presented in Appendix I. Our tests of internal control were limited to an assessment of the evidence presented by the results of our sampling tests.

Our work was performed in accordance with generally accepted government auditing standards as applicable to the objective. We performed audit fieldwork at RRB headquarters in Chicago, Illinois from April through June 2005, and March 2006.

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## RESULTS OF REVIEW

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The RRB generally processed cancellations and denials during the first quarter of FY 2005 in compliance with applicable provisions of the RRA and related regulations. However, the agency needed to strengthen controls to ensure that supporting documentation is retained in accordance with Office of Programs' procedure.

### **Documentation Not Maintained Timely on Imaging System**

The Office of Programs needs to strengthen controls to ensure retention of documentation supporting denials and cancellations.

Transactions and other significant events should be clearly documented, and the documentation should be readily available for examination. Documentation of transactions and other significant events should be complete, accurate and, whether in paper or electronic form, be useful to managers in controlling their operations and to any others involved in evaluating or analyzing operations.<sup>2,3</sup>

The Office of Programs has implemented a computer based electronic imaging system which serves as the repository for most documentation accumulated during the claims adjudication process. Documents may be stored in the imaging system manually by scanning paper documents into a compatible format or electronically by passing computer-generated documents to the system. The imaging system has replaced paper claim folders for most cases.

We evaluated a random sample of 45 applications that had been denied or cancelled during the first quarter of FY 2005. In six of the cases reviewed (13%), the key documentation supporting the agency's action had not been stored in the imaging system.

During the sample review process, we were unable to locate the written statements supporting three requests to cancel pending applications. In each case, the applicant's statements had been retained in the paper files of the field office instead of being forwarded to headquarters. At that time, the Office of Programs had not published formal procedures requiring field service personnel to send these statements to headquarters for imaging and did not have a control to ensure that all such statements were received.

In addition, we were unable to locate copies of letters notifying three applicants of the agency's decision to deny their application for benefits. The denial letters, which are generated electronically, had not been imaged because they had been retained

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<sup>2</sup>GAO, Standards for Internal Control In the Federal Government, (GAO/AIMD-00-21.3.1, November 1999), Page 15.

<sup>3</sup>GAO, Internal Control Management and Evaluation Tool, (GAO-01-1008G, August 2001), page 43.

erroneously by the Survivor Benefits Division in a temporary electronic authorization folder instead of being forwarded to the imaging system in accordance with existing procedure. That division did not have a control to ensure that all such letters would be forwarded to imaging after they had been authorized and released to the applicant.

Missing documentation makes it more difficult to determine the accuracy of the adjudicative actions, increases the risk of adjudicative errors, and weakens agency accountability and credibility.

The Office of Programs has reviewed the exceptions identified by the audit to determine what additional controls would strengthen controls over the retention of documentation. In August 2005, the Survivor Benefits Division implemented additional controls to ensure that correspondence generated electronically is forwarded to the imaging system after authorization. At about the same time, Policy and Systems issued procedures requiring field service personnel to forward cancellation requests to headquarters for imaging.

#### Management's Response

The Office of Programs agrees with the finding and noted that they had already taken action to strengthen controls. The full text of management's response is included as Appendix II to this report.

## **SAMPLING METHODOLOGY AND RESULTS**

### **Acceptance Sampling for Overall Compliance**

We used statistical sampling to determine whether cancellations and denials of applications under the RRA were executed in compliance with applicable provisions of that law and related regulations.

#### **Objective and Scope**

The sampling objective was to determine whether the RRB processed cancelled applications and benefit denials in compliance with applicable provisions of the RRA and related regulations. The sample was drawn from the universe of 252 applications that were cancelled or denied during the first quarter of FY 2005.

#### **Review Methodology**

Our case review methodology linked RRA provisions governing the denial and cancellation of applications for benefits to the specific information, determinations and documentation required to support the agency decisions to deny benefits or cancel an application. For each case in the sample, we reviewed information retained in support of the agency's action to deny or cancel an application and determined whether:

- RRB decisions to deny benefits had a basis in the RRA; and
- the agency sent applicants whose claims for benefits were denied a written explanation of the reason for denial that included notice of the applicant's right to appeal the agency's decision; or
- the RRB had obtained a written request, signed by the applicant, prior to cancellation of a pending application for benefits.

#### **Sampling Methodology**

We used statistical acceptance sampling using a 90% confidence level and a 5% tolerable error which directed a 45 case sample drawn at random from the universe of 252 agency actions to cancel or deny an application for benefits..

The threshold for sample acceptance was zero errors. Zero errors would permit the auditors to infer with 90% confidence that the RRB had a reasonable basis for its decision in at least 95% of the universe of all cancellation/denial actions. We applied the same sample acceptance threshold in our evaluation of control effectiveness when other types of processing errors were identified.

#### **Results of Sample Review**

Our review of 45 cases did not identify any cases of non-compliance with the RRA or related regulations.

**SAMPLING METHODOLOGY AND RESULTS**  
**Acceptance Sampling for Overall Compliance**

Other Exceptions

Our sample of 45 cases included three cancellations and three denials for which the RRB had not retained the documentation supporting compliance in the agency's document imaging system. The missing documentation indicates a weakness in internal control but did not adversely impact our conclusion concerning compliance because the documentation was eventually located elsewhere.

**Audit Conclusion**

We conclude, with 90% confidence, that the RRB processed canceled or denied benefit applications in compliance with the law in at least 95% of cases. Internal control over documentation of denials and cancellations may require improvement.



UNITED STATES GOVERNMENT  
**MEMORANDUM**

FORM G-115f (1-92)  
RAILROAD RETIREMENT BOARD

JUL 07 2006

**TO:** Henrietta Shaw  
Assistant Inspector General, Audit

**FROM:** Catherine A. Leyser *Catherine A. Leyser*  
Director of Assessment and Training

**THROUGH:** Dorothy Isherwood *D. Isherwood*  
Director of Programs

**SUBJECT:** **Draft Report – Review of Actions to Deny or Cancel Applications for Benefits Paid Under the Railroad Retirement Act**

We have reviewed your draft and agree with the findings. As you indicate, the Office of Programs had already taken action to strengthen controls to ensure that supporting documentation is retained; therefore, there was no need for additional recommendations.

Thank you for the opportunity to comment.

cc: Director of Policy and Systems  
Director of Operations  
Director of Retirement Benefits/ Acting Director of Survivor Benefits  
Director of Field Service  
Chief of Program Evaluation (Ret/Surv/Medicare/Tax)